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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

GARY PIERCE, Chairman
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

IN THE MATTER OF THE APPLICATION
OF ARIZONA-AMERICAN WATER
COMPANY, AN ARIZONA CORPORATION,
FOR A DETERMINATION OF THE
CURRENT VALUE OF ITS UTILITY PLANT
AND PROPERTY AND FOR INCREASES IN
ITS RATES AND CHARGES BASED
THEREON FOR UTILITY SERVICE BY ITS
ANTHEM WATER DISTRICT AND ITS SUN
CITY WATER DISTRICT, AND POSSIBLE
RATE CONSOLIDATION FOR ALL OF
ARIZONA AMERICAN WATER
COMPANY'S DISTRICTS.

IN THE MATTER OF THE APPLICATION
OF ARIZONA-AMERICAN WATER
COMPANY, AN ARIZONA CORPORATION,
FOR A DETERMINATION OF THE
CURRENT VALUE OF ITS UTILITY PLANT
AND PROPERTY AND FOR INCREASES IN
ITS RATES AND CHARGES BASED
THEREON FOR UTILITY SERVICE BY ITS
ANTHEM/AGUA FRIA WASTEWATER
DISTRICT AND ITS SUN CITY WEST
WASTEWATER DISTRICT, AND
POSSIBLE RATE CONSOLIDATION FOR
ALL OF ARIZONA AMERICAN WATER
COMPANY'S DISTRICTS.

DOCKET NO. W-01303A-09-0343

Arizona Corporation Commission

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AUG 16 2011

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MM

DOCKET NO. SW-01303A-09-0343

**NOTICE OF FILING DIRECT
TESTIMONY OF ROBERT RIALS ON
BEHALF OF CORTE BELLA
COUNTRY CLUB ASSOCIATION,
INC.**

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1 Corte Bella Country Club Association, Inc. (hereinafter, "Corte Bella"), by and
2 through undersigned counsel, hereby files the direct testimony of Robert Rials.

3
4 DATED this 16th day of August 2011.

5
6 **MACK DRUCKER & WATSON, P.L.C.**

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14 **ORIGINAL** and 13 copies filed
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16 Docket Control
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DIRECT TESTIMONY OF ROBERT RIALS
ON BEHALF OF
CORTE BELLA COUNTRY CLUB ASSOCIATION, INC.

1
2 I. **INTRODUCTION**

3 Q. **PLEASE PROVIDE YOUR NAME, POSITION, BUSINESS ADDRESS,**
4 **AND TELEPHONE NUMBER.**

5 A. My name is Robert E. Rials. I am President of the Board of Directors for Corte
6 Bella Country Club Association, Inc. ("Corte Bella"). The business address for
7 Corte Bella is 22155 North Mission Drive, Sun City West, Arizona, 85375. My
business phone is 623-328-5068.

8 Q. **PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE AND**
9 **EDUCATION.**

10 A. I was elected to the Board of Directors for Corte Bella in 2007. At that time, I
11 was also nominated and elected as President of the Board. I have held that
12 position for the past 3 ½ years.

13 Prior to moving to Corte Bella, I worked in the telecommunications industry. I
14 was employed by General Telephone and Electronics ("GTE") for 35 years and,
at retirement, was a Manger in the GTE – California Planning and Engineering
15 Department. My responsibility was to plan and engineer plant and infrastructure,
ensuring customer service demands were being met as established by the
16 California Utilities Commission. My Department was responsible for over 1.5
million customers along the California coast stretching from Long Beach
17 through Santa Monica to Santa Barbara. The annual budget was over \$100
million and laid the foundation for all infrastructure. I hold a Bachelor of
18 Science degree in Business Administration from Redlands University.

19
20 Q. **HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION?**

21 A. Yes. I submitted pre-filed testimony in Docket No. W-01303A-11-0101,
22 regarding American Water Works Company, Inc.'s application to transfer all
23 issued and outstanding shares of Arizona American Water Company ("Arizona-
American") to EPCOR Water USA, Inc.

24
25 ...

26 ...

27 ...
28

1 **II. SCOPE AND PURPOSE OF TESTIMONY**

2
3 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

4 **A.** The purpose of my testimony is to express Corte Bella's concerns regarding the
5 proposed deconsolidation of the Anthem / Agua Fria Wastewater District and,
6 more specifically, the severe financial impact that a 139.7% increase in
wastewater rates will have upon Corte Bella residents.

7
8 My understanding is that this proceeding arose from a meeting between
9 Arizona-American, Anthem Community Council ("Anthem"), the Residential
10 Utility Consumer Office ("RUCO") and Commission Staff during the Open
11 Meeting held in December 2010. I do not believe that any representatives from
12 Agua Fria were part of that meeting, whereby those entities agreed to examine
deconsolidation in a subsequent proceeding. Corte Bella intervened in this
proceeding in order to make the Commission aware of its opposition to
deconsolidation.

13 **Q. PLEASE DESCRIBE CORTE BELLA.**

14
15 **A.** Corte Bella is an age-restricted community (55 +) that contains approximately
16 1,650 single-family homes. The community was developed by Pulte and turned
17 over to its members in 2007. There is no potential for future growth in Corte
Bella – as the community is completely built-out at 1,650 homes.

18 Corte Bella is located adjacent to Sun City West and receives all of its water and
19 wastewater services from Arizona-American. A vast majority of Corte Bella
20 residents are retirees on fixed and/or reduced incomes.

21 **Q. PLEASE DESCRIBE YOUR UNDERSTANDING OF ARIZONA-AMERICAN'S DECONSOLIDATION FILING.**

22
23 **A.** My understanding is that Arizona-American is not advocating for
24 deconsolidation of the Anthem / Agua Fria Wastewater District. In fact, I
25 believe that most of the parties in the rate proceeding testified about the many
26 benefits favoring rate consolidation, but that the rate impacts would be too
27 significant on certain customers in other Arizona-American districts to support
28 full consolidation at that time. Thus, I believe that Arizona-American made its
filing in accordance with Decision No. 72047 so that the Commission could
examine whether deconsolidating Anthem and Agua Fria wastewater rates made
sense and could be done fairly. My testimony describes why it is unfair to Corte

Bella residents, as well as other customers located within the Agua Fria district.

Q. IN YOUR OPINION, DOES A 139.7% INCREASE IN WASTERWATER RATES CONSTITUTE RATE SHOCK?

A. Yes. Although I am not an expert witness in this case, everyone agrees that a 139.7% increase in wastewater rates constitutes rate shock. If deconsolidation is approved, the average wastewater bill for Corte Bella residents will increase from \$67.97 per month (which includes the 53.93% increase already approved in Decision No. 72047) to an astonishing \$108.34 per month. That, by definition, is rate shock.

Most notably, in the underlying rate case, Dan Neidlinger for Anthem testified that a proposed increase of 82% in wastewater rates, which would increase the average monthly bill by \$38.00, was clearly rate shock. Here, Agua Fria residents would face an increase of almost 140.0% in wastewater rates over then-existing rates during the test year. That is, Corte Bella residents potentially face an increase of 59.39% (on average) over *current* rates in late 2011 or early 2012, which is in addition to the approximate 54.0% increase in rates Corte Bella residents experienced in early 2011. By all accounts, Corte Bella residents will experience rate shock if the Commission approves deconsolidation.

Q. IS CORTE BELLA FACING OTHER PROPOSED RATE INCREASES FROM ARIZONA-AMERICAN?

A. Yes. In addition to the proposed 139.7% increase in wastewater rates, Corte Bella is also facing a proposed 82.9% increase in water rates as part of Docket No. W-01303A-10-0448. Although I understand that the Commission may approve rates for the Agua Fria Water District that are different than Arizona-American's proposal, it is highly likely that Corte Bella residents will end up paying significantly higher rates for water. This only compounds the added hardship that Corte Bella residents will experience if deconsolidation is approved.

Q. WILL A 139.7% INCREASE IN WASTEWATER RATES NEGATIVELY IMPACT THE RESIDENTS OF CORTE BELLA?

A. Absolutely. As previously stated, Corte Bella is an age-restricted community in which a vast majority of its residents are on fixed and/or reduced incomes. Arizona-American's deconsolidation "proposal" would mean an additional, significant increase in wastewater rates in approximately 12 to 15 months. Although a 139.7% increase in wastewater rates will adversely impact any

1 consumer (regardless of age), it has an even more profound impact on age-
2 restricted communities.

3 If deconsolidation is approved, Corte Bella residents will be paying (on average)
4 an *additional* \$40.37 per month for sewer service. That amounts to nearly
5 \$500.00 more a year for each resident – with a combined annual impact on
6 Corte Bella residents of nearly \$800,000.00 (1,650 homes x \$40.37). A monthly
7 increase of \$40.37 will pose a significant financial burden on many Corte Bella
8 residents that are already struggling financially in this economy and who are
9 already paying significantly more for wastewater service than they did a year
10 ago.

11 The financial impact is further exasperated by the fact that Corte Bella residents
12 are facing a potential 82.9% increase in water rates as part of Docket No. W-
13 01303A-10-0448. If approved, the average water bill for Corte Bella residents
14 will increase by another \$25.13.

15 Simply put, Corte Bella residents cannot absorb this drastic increase in
16 wastewater rates on top of the increase earlier this year. This increase will alter
17 the lifestyle of Corte Bella residents and other retirees living in Agua Fria. The
18 Commission should not approve deconsolidation of rates that will cause this
19 additional increase to Corte Bella residents – especially given the prospect of an
20 increase to water rates.

21 **Q IS THE PROPOSED DECONSOLIDATION OF THE ANTHEM / AGUA**
22 **FRIA WASTEWATER DISTRICT UNFAIR TO CORTE BELLA**
23 **RESIDENTS?**

24 **A.** Yes. Anthem proposed deconsolidation as an alternative because their residents
25 receive no service from the Northwest Treatment Plant (“NTP”) and, therefore,
26 do not wish to pay for any costs associated therewith. Yet, Agua Fria residents
27 have likely paid for and will pay for facilities serving Anthem that provide no
28 service to Agua Fria.

More importantly, it is my belief that residents within the Anthem / Agua Fria
Wastewater District benefit from being within the same district. While the four
service areas in the district (i.e., Verrado, Russell Ranch, Anthem and Agua
Fria) are not physically connected in any way, customers of each development
do not have to solely bear the burden of the costs for those facilities. I believe
keeping the district intact has benefited and will continue to benefit all residents
within the Agua Fria / Anthem Wastewater District. Conversely, Arizona-
American’s deconsolidation proposal results in big increases to Corte Bella and

1 other residents within Agua Fria whenever facilities need to be replaced.

2 I also understand that Arizona-American must propose a consolidation proposal
3 in its next rate case. Thus, I think deconsolidation would be counter-productive
4 if consolidation is to be seriously considered in the next full rate proceeding.

5 **Q. DO YOU BELIEVE THERE HAS EVER BEEN ANY INTENT TO**
6 **DECONSOLIDATE ANTHEM FROM AGUA FRIA BEFORE NOW?**

7 **A.** No. The current Anthem / Agua Fria Wastewater District has existed for nearly
8 ten (10) years. The Commission approved the Certificate of Convenience and
9 Necessity ("CC&N") for Arizona-American where Verrado, Russell Ranch,
10 Anthem and Corte Bella (which is part of the Northeast Agua Fria area) are all
11 part of the Anthem / Agua Fria Wastewater District. I believe this is the first
12 time deconsolidating the Anthem / Agua Fria Wastewater District has ever been
13 an issue.

14 **Q. DID ANTHEM ADVOCATE FOR CONSOLIDATION IN THE RATE**
15 **PROCEEDING?**

16 **A.** Yes. Significantly, Anthem noted the many benefits consolidation offers,
17 including: (1) lower administrative costs through unified customer accounting
18 and billing systems; (2) reduction in the number of rate cases and associated
19 expenses; (3) elimination of distorted cost allocations among districts in rate
20 filings; (4) implementation of standard customer service policies and related
21 service rates and charges; (5) improved rate stability and elimination of rate
22 shock; (6) reduced customer confusion with respect to the Company's currently
23 differing rate schedules; (7) development and implementation of a targeted and
24 comprehensive water conservation program for all of its systems; and (8)
25 improved opportunities for future acquisitions. My understanding is that
26 Anthem proposed deconsolidation only in the alternative. So, to me,
27 deconsolidation appears to be completely inapposite to Anthem's primary
28 position in the rate case.

29 **Q. DID STAFF OR ARIZONA AMERICAN SUPPORT ANTHEM'S**
30 **ALTERNATIVE PROPOSAL TO DECONSOLIDATE THE ANTHEM /**
31 **AGUA FRIA WASTEWATER DISTRICT?**

32 **A.** No. In fact, both indicated there was not enough evidence in the record to
33 support deconsolidated revenue requirements. I agree and believe there is still
34 not enough evidence to support deconsolidation.

1 **Q IN YOUR OPINION, WILL DECONSOLIDATION OF THE ANTHEM /**
2 **AGUA FRIA WASTEWATER DISTRICT RESULT IN ADDITIONAL**
3 **EXPENSES FOR BOTH DISTRICTS?**

4 **A.** Yes. In response to the second set of data requests from Verrado Community
5 Association, Arizona-American stated that "deconsolidation will increase
6 regulatory expense associated with rate cases and tariff administration."

7 **Q.** **DO YOU BELIEVE IT MAKES SENSE FOR THE COMMISSION TO**
8 **DECONSOLIDATE THE ANTHEM / AGUA FRIA WASTEWATER**
9 **DISTRICT NOW IF CONSOLIDATION MAY OCCUR IN THE**
10 **FUTURE?**

11 **A.** No, it does not.

12 **III. CONCLUSION**

13 **Q.** **IN YOUR OPINION, SHOULD THE COMMISSION APPROVE**
14 **DECONSOLIDATION OF THE ANTHEM / AGUA FRIA**
15 **WASTEWATER DISTRICT?**

16 **A.** No. It is unfair to Corte Bella residents (as well as other residents of Agua Fria)
17 to deconsolidate this district after ten (10) years – especially when
18 deconsolidation will produce such a disparate result. The benefit to Anthem is
19 greatly outweighed by the severe financial impact of a 139.7% increase in
20 wastewater rates on the remaining customers in the Agua Fria District.
21 Deconsolidation of the Anthem / Agua Fria District would clearly result in rate
22 shock to Corte Bella residents.

23 Further, deconsolidation is inconsistent with the Commission's directive to
24 evaluate the feasibility of full rate consolidation in the next rate proceeding. As
25 part of Decision 72047, Arizona-American is required to develop and file a
26 comprehensive consolidation proposal as part of its next rate application. If the
27 Commission is considering consolidation as a long-term solution for rate
28 stability, then deconsolidating the Anthem / Agua Fria Wastewater District
 makes no sense.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.